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Message Text

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ORIGIN SS-25

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S/S-O:JMEALUM
---------- 113372
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FM SECSTATE WASHDC
TO AMEMBASSY LUSAKA PRIORITY
INFO AMEMBASSY ABIDJAN PRIORITY
AMEMBASSY BAMAKO PRIORITY

C O N F I D E N T I A L STATE 174339

EXDIS

E.O. 11652: GDS
TAGS: EFIN, ZA
SUBJ: OPIC FINANCING FOR TAW IN ZAMBIA

1. AT SEPT. 10 MEETING, OPIC'S BOARD OF DIRECTORS WILL CONSIDER A PROPOSAL TO LEND 2.1 MILLION DOLS TO TAW-DELAWARE, WHICH CONTRACTED WITH THE GRZ IN MAY 1973 TO LEASE AND MAINTAIN SEVERAL HUNDRED TRUCKS. YOUR VIEWS ARE REQUESTED ON SEVERAL ISSUES RELEVANT TO CONSIDERATION OF MERITS OF FINANCING PROPOSAL. WE ARE MOST CONCERNED THAT THIS MATTER INVOLVING BUSINESS CONFIDENTIALITY BE VERY CLOSELY HELD.

2. BACKGROUND. TAW (I.E., TAW-DELAWARE, THE PARENT,
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AND ITS 78 PERCENT-OWNED SUBSIDIARY, TAW-LIBERIA) LEASES TRUCKS, BUSES AND OTHER EQUIPMENT IN EIGHT EAST AND WEST AFRICAN COUNTRIES. ITS REGIONAL HEADQUARTERS ARE IN NAIROBI AND ABIDJAN. TAW COMMENCED OPERATIONS IN 1970

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AFTER OPIC (THEN AID) EXTENDED COMMERCIAL-RISK GUARANTEES TO PRUDENTIAL INSURANCE (22 PERCENT OWNER OF TAW-LIBERIA) FOR ITS 6.5 MILLION DOLS DEBT AND EQUITY INVESTMENT. PROBLEMS DEVELOPED RE FINANCIAL CONTROL, INCREASED OPERATING EXPENSES AS LEASING VOLUME GREW RAPIDLY, AND HIGH DELIQUENCY RATES.

3. LATE IN 1971 TAW DECIDED TO TAKE UP FULL SERVICE VEHICLE LEASING IN WEST AFRICA, FOR WHICH OPIC'S BOARD IN OCTOBER 1972 AUTHORIZED 14 MILLION DOLS IN DEBT FINANCING. SINCE TAW COULD NOT RAISE ADDITIONAL EQUITY (PARTLY DUE TO TAW'S INADEQUATE FINANCIAL CONTROLS), THE OPIC FINANC-ING WAS NEVER COMMITTED. THE OPIC BOARD WILL BE ASKED ON SEPT. 10 TO DEAUTHORIZE THIS FINANCING. IN AUGUST 1972 TAW SIGNED AN AGREEMENT WITH GM FOR 150 TRUCKS TO BE SENT TO WEST AFRICA. IN OCTOBER 1972, GM AND RYDER CONSULTANTS ARRIVED IN THE IVORY COAST TO ORGANIZE FOR THE LEASING OF THESE TRUCKS, WHICH ARRIVED IN EARLY 1973. ALL BUT SEVEN OF THE TRUCKS REMAINED IN CUSTOMS AS OF JUNE BECAUSE TAW DID NOT HAVE THE FUNDS EITHER TO PAY GM OR TO PAY CUSTOMS DUTIES. GM HAS SINCE ALLOWED ITS TRUCKS TO BE LEASED BEFORE THEY WERE PAID FOR, AND ABOUT 12 HAVE BEEN LEASED IN THE IVORY COAST, ABOUT 25 IN MALI, 34 WERE SENT TO ZAMBIA AND THE REMAINING 79 WILL BE LEASED IN THE IVORY COAST, MALI, UPPER VOLTA AND TOGO OVER THE NEXT THREE MONTHS. TWO TAW SERVICE FACILITIES ARE OPERATING IN MALI AND THE IVORY COAST AND SMALL FACILITIES ARE BEING BUILT IN TOGO AND UPPER VOLTA.

4. THE ZAMBIAN LEASE. IN MARCH 1973 TAW-DELAWARE EXECUT-ED A 36-MONTH LEASE (HAVING A 24-MONTH CANCELLATION OPTION) WITH THE GRZ FOR 300 GM TRACTORS AND 400 FRUEHAUF TRAILERS. WHETHER THE GRZ WOULD EXERCISE THE 24-MONTH OPTION WOULD DEPEND ON THE TIMING OF FULL CAPACITY OPERATION OF THE NEW TANZANIAN RAILROAD. ANOTHER TAW SUBSIDIARY, TAW-SERVICE HAS A CONTRACT WITH THE GRZ TO MAINTAIN THE LEASED VEHICLES AND SUPPLY 30 ADDITIONAL
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RIGS FOR REPLACEMENT. TAW'S PRESIDENT (THOMAS A. WOOD) RETURNED TO THE US WITH A 60 DAY NOTE FROM THE GRZ FOR 2.5 MILLION DOLS. WOOD THEN USED THE PROCEEDS OF THE NOTE TO COVER TAW-LIBERIA OBLIGATIONS, AN ACTION OF WHICH GRZ IS NOT AWARE. TAW ALSO SECURED EXIM PRELIMINARY COMMITMENT OF UP TO 95 PERCENT OF THE 15 MILLION DOLS COST OF EQUIPMENT LESS THE FIRST AND LAST MONTHS' RENT. THE COMMITMENT IS CONTINGENT UPON (A) RECEIPT OF TAW'S FY 1972 AUDITED FINANCIAL STATEMENT AND (B) A COMPLETED FINANCIAL PLAN FOR THE ZAMBIAN LEASE. TAW-DELAWARE CANNOT MEET ITS CONTRACTED SEPT. 1, 1973 DELIVERY DATE (ONE OF THE REASONS GRZ PREFERRED THE TAW OFFER) UNTIL DECEMBER OR JANUARY.

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5. CURRENT STATUS. IN JUNE 1973 ALL OF TAW'S LOANS FELL INTO DEFAULT, AND TAW APPROACHED OPIC FOR MORE FINANCING. OPIC SOUGHT AND RECEIVED PERMISSION TO BRING THE CREDITORS IN ON ALL THE MANAGEMENT AND FINANCIAL PROBLEMS. THEY WERE CONCERNED ABOUT THE COLLECTIBILITY OF THE TAW-LIBERIA LEASES, THE SOLE SOURCE OF REPAYMENT OF THE 10.7 MILLION DOLS DEBT IN DEFAULT. AN OPIC OFFICER WHO VISITED TAW'S AFRICA OPERATIONS IN JULY ISSUED GENERALLY FAVORABLE REPORT RE FINANCIAL CONTROLS, COLLECTION OF ACCOUNTS, AND MANAGERIAL REFORMS IN THE FIELD OFFICES. TAW HAS HIRED AN EXPERIENCED ACCOUNTANT FOR HEADQUARTERS; HE IS WORKING TO BRING THE 1973 AND 1972 BOOKS AND RECORDS CURRENT IN ACCORDANCE WITH ACCEPTED ACCOUNTING PRACTICE. FULL-SERVICE LEASING IS UNDERWAY IN WEST AFRICA, AND THIS BRIGHTENS THE LONG-RUN EARNINGS PICTURE. IN THE VERY SHORT RUN, TAW FACES SEVERE CASH FLOW PROBLEMS. ABOUT HALF THE 34 TRUCKS SHIPPED FROM WEST AFRICA TO ZAMBIA ARE NOW BEING LEASED. GM IS PAYING COSTS OF GM AND RYDER CONSULTANTS IN ZAMBIA UNTIL THE RYDER MANAGE-MENT AGREEMENT COMES INTO EFFECT. TAW CAN PROBABLY SURVIVE WITHOUT OUTSIDE FINANCING UNTIL LATE OCTOBER, BUT AT THAT POINT FUNDS MUST BE TRANSFERRED TO ZAMBIA TO BUILD AND EQUIP MAINTAINENCE CENTERS IN TIME FOR ARRIVAL OF GM'S SHIPMENT OF 300 SPECIALLY-DESIGNED RIGS IN DECEMBER OR JANUARY.

6. TAW'S PROJECTIONS INDICATE THAT IT NEEDS 3.6 MILLION
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DOLS IN FINANCING IN ADDITION TO AN EXPECTED PRUDENTIAL 750,000 DOLS EQUITY CONTRIBUTION AND THE 15 MILLION DOLS IN EQUIPMENT DEBT FOR ZAMBIA. THE 3.6 MILLION DOLS, TO BE LENT BY OPIC AND SEVERAL BANKS, WOULD FINANCE FREIGHT AND CERTAIN STARTUP COSTS FOR ZAMBIAN ACTIVITY BEFORE ZAMBIA LEASE PAYMENTS COMMENCE (IN EARLY 1974) AND WOULD COVER TAW-LIBERIA EXPENSES IN US UNTIL FUNDS CAN BE REPATRIATED FROM AFRICA.

7. AREAS OF CONCERN. CURRENT OPIC PROPOSAL, LIKE 1972 PROPOSAL, PRESENTS QUESTION OF "FISH OR CUT BAIT." DEPARTMENT HAS SUPPORTED PAST OPIC-FINANCING FOR TAW BECAUSE OF POTENTIAL FOR INTRODUCING US TRUCKS INTO A RELATIVELY NEW MARKET AND FOR CONTRIBUTION TO DEVELOPMENT. IN CONSIDERING MERITS OF OPIC-FINANCING PROPOSAL DEPART-MENT WOULD APPRECIATE ANY VIEWS YOU MIGHT HAVE, ON AN INHOUSE BASIS ONLY, RE FOLLOWING QUESTIONS:

A) IF TAW-DELAWARE WERE TO FAIL, WHAT GRZ REACTION WOULD YOU FORESEE? CONSIDERING GM/RYDER FINANCIAL AND PERSONNEL COMMITMENT IN ZAMBIA, DO YOU BELIEVE THAT GM/RYDER WOULD HAVE CAPABILITY IN ZAMBIA TO

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TAKE OVER TAW-DELAWARE LEASE WITH GRZ AND CARRY IT OUT? DEPARTMENT APPRECIATES THAT ONLY COMPANY CAN FULLY ANSWER THIS QUESTION.

B) IF DELIVERY DELAYS BECOME GREATER PROBLEM, WHAT REACTION WOULD YOU EXPECT FROM GRZ?

C) WOULD YOU FORESEE ANY REPERCUSSIONS (E.G., ABROGATION OF LEASE) IF GRZ BECAME AWARE OF TAW'S FINANCIAL PROBLEMS.

D) DO YOU HAVE ANY OTHER COMMENTS ON TAW'S ACTIVITY WHICH WOULD ASSIST OUR CONSIDERATION?

E) DO YOU HAVE ANY COMMENTS ON OPIC'S PROPOSED 2.1 MILLION DOLS LOAN?

8. DEPARTMENT WOULD VERY MUCH APPRECIATE PRIORITY RESP-ONSE BY COB SEPT. 5 TO FACILITATE CONSIDERATION OF CONFIDENTIAL

MERITS OF PROPOSAL. ANY COMMENTS OR UPDATE FROM AMEM-BASSIES ABIDJAN AND BAMAKO ARE WELCOME. ROGERS

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